



Interpreting data for Ireland in international banking statistics

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Abstract

This Letter provides an overview of Irish international banking statistics, which detail the international financial linkages of Irish banks. The complexity of the Irish banking system, in particular the role of the IFSC, poses challenges in interpreting these data. In order to illustrate some of the issues involved, this Letter reviews the main conceptual and methodological frameworks underlying Irish international banking statistics, and highlights some of the possible pitfalls which arise when trying to interpret the data.

Introduction

This Letter provides a description of Irish international banking statistics which have received increased attention since the financial crisis. The main source of data on international exposures and financial linkages of banks is the international banking statistics compiled by the Bank for International Settlements (BIS). These statistics are compiled according to two distinct frameworks: locational and consolidated. The former provides geographic and currency information for all banking offices active in the reporting country.² The latter focuses on the risk exposures of banks headquartered in the reporting country.

The inherent complexity of these datasets poses challenges for their interpretation. To illustrate the issues involved, we focus on the external asset and liability positions for Ireland vis-à-vis Germany which have been heavily impacted by methodological issues. This Letter examines the frameworks underpinning Irish international bank-

ing statistics and is structured as follows: section 1 describes the BIS international banking statistics; section 2 highlights the methodological issues influencing Irish data, section 3 discusses the evolution of international banking statistics for Ireland, and section 4 concludes.

1 International banking statistics

As previously mentioned, International Banking Statistics (IBS) compiled by the BIS, in cooperation with reporting central banks, define banking systems within two frameworks, on a locational and consolidated basis.

Locational Banking Statistics (LBS) cover banks' international financial assets and liabilities including currency and geographical breakdowns, based upon the residence of the reporting entity. The LBS provide information on resident banking

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²These data are further disaggregated according to the nationality of the resident banking offices.

³The residency concept under the IMF's Balance of Payments Manual Version 6 states that the residence of each insti-

offices and are reported in accordance with Balance of Payments methodology.³ LBS contain two datasets, (i) locational by residency and (ii) locational by nationality.⁴ Irish resident banks include both Irish-owned banks and foreign-owned branches and subsidiaries resident in Ireland. Nationality data are reported according to the country where the bank is headquartered.

The second framework is the Consolidated Banking Statistics (CBS) which also contains two datasets. These measure the consolidated claims of banks headquartered in reporting countries and their risk exposures on a consolidated basis.⁵ CBS on an immediate borrower basis (iii) are based on the country where the first counterparty exposure lies, whereas CBS on an ultimate risk basis (iv) identify countries where the final risk resides⁶ (after taking into account risk transfers).

The two datasets differ from each other in a number of important ways. The LBS cover on-balance sheet positions (for liabilities and claims) and are reported on an immediate counterparty basis (disregarding risk transfers). The CBS include data on banking systems' claims on counterparties and incorporate off-balance sheet exposures such as risk transfers, credit commitments and guarantees. A further difference relates to the number of participants in the both the LBS and the CBS. 44 countries reported data for the LBS in 2012 compared to 31 countries in the case of the CBS (CGFS, 2012; BIS, 2013).

2 Methodological Considerations

A number of issues complicate the interpretation of the BIS international banking statistics for Ireland particularly for the locational data. Taking

Germany as an example, factors which need to be taken into account when interpreting Irish LBS include: (i) changes in the reporting population of banks, and (ii) the impact of resolution agencies established in Germany during the financial crisis.

For LBS on a nationality basis (i.e. country of headquarters), nationality is assigned to the highest level of *banking unit* in the chain of a company's ownership and not according to the ultimate parent. The introduction of the covered bond (Pfandbrief) market in Ireland prompted some European banks to amend their corporate structures.⁷ Consequently, a number of banks active in the Pfandbrief market were classified as Irish headquartered banks for statistical purposes, and formed part of the Irish LBS on nationality basis between 2002 and 2011. These Pfandbrief banks inflated Irish international assets and liabilities vis-à-vis a range of countries in addition to Germany. Since 2011, the reporting population for LBS on a nationality basis is consistent with Irish-owned banks covered under the Credit Institutions (Financial Support) Act 2008, as these Pfandbrief banks are no longer headquartered in Ireland. At end-2008, Pfandbrief banks accounted for approximately 16 per cent of total foreign liabilities attributed to Irish headquartered banks.

The second caveat concerns financial sector support measures established by the German authorities during the global financial crisis.⁸ The state support received by the Hypo Real Estate (HRE) Group significantly influenced banking flows between Ireland and Germany.⁹ In 2008, a large portion of the €50 billion support provided to the HRE Group was channelled to its Irish-resident banking subsidiaries. Consequently, total Irish bank liabilities to Germany in the LBS increased sharply in Q4 2008.

In late 2010 the HRE Group transferred a large

tutional unit is the economic territory with which it has the strongest connection (expressed as its centre of predominant economic interest). Each unit is a resident of only one economic territory.

³LBS include intra-bank assets and liabilities

⁵CBS net out intra-bank assets and liabilities.

⁶Data on an ultimate risk basis are reported by domestic banks (banks whose controlling parent institution is located in the reporting country, regardless of whether the controlling parent is a banking or non-banking entity). Data are reported on a consolidated basis with a counterparty-country breakdown based on the residence of the ultimate obligor (i.e. inter-office activity should be excluded and positions should be allocated to the country where the final risk lies).

⁷The enactment of the Asset Covered Securities Act 2001 established the covered bond market in Ireland. This legislation facilitated the issuance of covered bonds (mortgage or public sector credit covered bonds similar to German Pfandbrief securities) by banks with offices resident in Ireland.

⁸A detailed description of German financial sector support during the global financial crisis can be found in IMF (2011).

⁹Hypo Real Estate (HRE) Group received support from a syndicate comprising the German financial sector and the Deutsche Bundesbank. Cumulative support of €50 billion was provided by October 2008 consisting of two special liquidity lines from Deutsche Bundesbank (with involvement from the Financial Markets Stabilisation Fund; SoFFin) (Depfa, 2009).

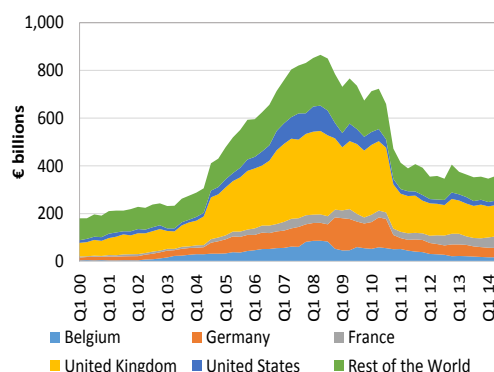
portion of the balance sheet of its Irish-resident banking subsidiaries to a German-resident resolution vehicle.¹⁰ This restructuring is reflected in the reduction of Irish banks liabilities vis-à-vis Germany at this time (Figure 1).

3 Irish International Banking Statistics

3.1 Locational Banking Statistics

From 2003 onward Irish banks' total foreign liabilities increased significantly, peaking at €865 billion in mid-2008 (Figure 1), before contracting following the onset of the financial crisis. By 2008, the main geographic counterparties to resident Irish banks included the UK, the US and Belgium, followed by Germany (Figure 1). As outlined in section 2, these positions vis-à-vis Germany are, however, heavily impacted by methodological issues.

Figure 1: Irish-resident bank' liabilities vis-à-vis all countries

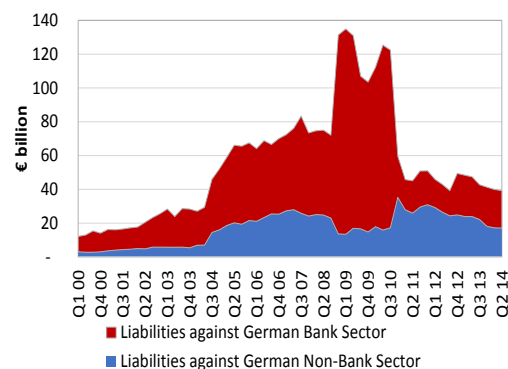


Source: BIS LBS by residency.

In early-2008, Irish-resident bank liabilities to Germany stood at approximately €75 billion (including €50 billion liabilities to the German banking sector). This equated to almost 9 per cent of outstanding external liabilities. This figure had remained broadly constant at close to 10 per cent for a number of years. These liabilities vis-à-vis

Germany¹¹ increased significantly over the course of Q4 2008 arising from the provision of support by German authorities to stabilise HRE (Figure 2).¹² Consequently, liabilities to Germany rose to more than 18 per cent of international liabilities by early-2009 (with liabilities to the German banks increasing to more than 16 per cent).

Figure 2: Irish-resident bank' liabilities vis-à-vis all Germany (with sectoral breakdown)



Source: BIS LBS by residency.

Liabilities of Irish-resident banks to Germany remained at this elevated level until late-2010 when they fell back to around 11 per cent, with German banks accounting for less than half of this total. This reduction reflected the aforementioned portfolio transfer from HRE Group to a German resolution vehicle. Despite falls in overall liabilities to Germany, liabilities to the German non-bank sector increased. This reflected a broader increase in liabilities to the international non-bank sector.

3.2 Consolidated Banking Statistics

External liabilities of resident banks are reported directly in the LBS but are not available for the CBS. Instead claims by foreign banks on Ireland must be derived from information supplied by other reporting central banks to the BIS. For example, Germany reports claims by its headquartered banks on other countries, including Ireland. Irish liabilities on a consolidated basis are derived as an ag-

¹⁰The total Balance Sheet liabilities of Depfa Group (Depfa Bank plc. and subsidiary undertakings) fell by approximately €50 billion after transfers to FMS Wertmanagement whilst €76 billion in internal HRE Group financing was also repaid (Depfa, 2011). The transfer of €173 billion from all foreign subsidiaries to the German resolution agencies also affected a number of countries' international balance sheets, as well as the German Balance of Payments (Bundesbank, 2011).

¹¹Specifically, liabilities vis-à-vis the German banking sector showed a substantial rise in late-2008.

¹²Support from HRE Group to Depfa Bank plc., an Irish-resident banking subsidiary, increased by approximately €60 billion during 2008.

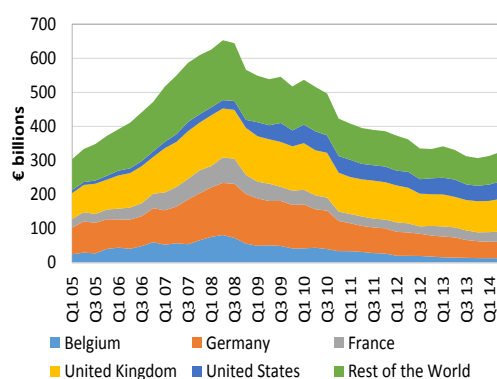
¹³By contrast, the LBS data cited here relate to the reported liabilities of Irish banks only.

gregate of other countries' claims on Ireland as reported to the BIS. Claims reported relate to all sectors of the Irish economy.¹³

By early 2008, the CBS data showed total foreign claims on Ireland standing at approximately €625 billion (on an immediate borrower basis) of which €145 billion¹⁴ related to Germany (23 per cent of total claims on Ireland) (Figure 3). This includes exposures to Irish-resident Pfandbrief banks (including the aforementioned subsidiaries of the HRE Group) which were classified as claims on Ireland.

German claims on Ireland on an immediate borrower basis fell substantially over the subsequent years. By Q1 2010, these stood at €129 billion and by Q2 2014 had fallen further to €48 billion. This represents a cumulative reduction of 71 per cent with German claims as a proportion of total claims falling to 15 per cent in 2014.

Figure 3: Composition of total consolidated foreign claims on Ireland (immediate borrower basis)



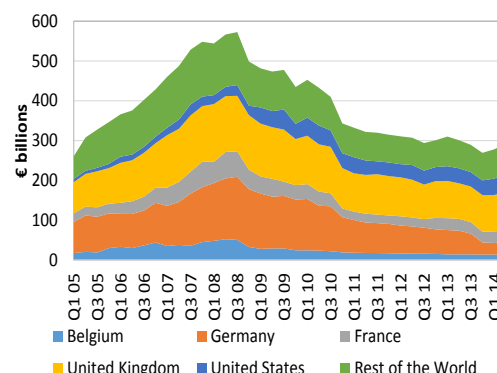
Notes: (i) Data are sourced from BIS CBS. (ii) Refers to all reporting banks. (iii) Refers to all claims on Ireland (both for the bank and non-bank sectors)

Consolidated German bank claims on Ireland on an immediate counterpart basis are available at sectoral level from the BIS. At end-Q2 2014, more than 85 per cent of claims were against non-banks, which include significant exposures to the International Financial Services Centre (IFSC). While overall liabilities had been falling steadily since 2008, claims on resident bank offices in Ireland

contracted at a faster pace. Consolidated claims by German headquartered banks on all Irish-resident bank offices fell from 25 per cent of total German claims on Ireland at end-2008 to just over 14 per cent by Q2 2014.

By early 2008, total bank consolidated claims on Ireland were €544 billion on an ultimate risk basis. However, German data must be caveated as claims on an ultimate risk basis were not available prior to Q4 2013. Data on an immediate counterpart basis were used as a proxy by the BIS¹⁵ and claims by Germany on an ultimate risk basis are, therefore, overstated for periods prior to Q4 2013 (Figure 4).¹⁶ German bank claims on Ireland on an ultimate risk basis totalled €31 billion at end Q2 2014 (11 per cent of total claims on Ireland).

Figure 4: Composition of total consolidated foreign claims on Ireland (ultimate basis)



Notes: (i) Data are sourced from BIS CBS. (ii) Refers to all reporting banks. (iii) Refers to all claims on Ireland (both for the bank and non-bank sectors). (iv) Relevant time series commences 2005.

4 Conclusions

Analysing Ireland's international banking statistics requires an understanding of the methodology underlying the construction of the data. It also requires an awareness of the impact of specific factors, in particular changes in the number of reporting banks and the impact of resolution agencies. This is highlighted in this Letter by the rescue of the HRE Group which caused Irish bank liabilities

¹⁴It should be borne in mind that the quantum of German claims on Ireland is lower when only data on German domestic banks is analysed from the CBS datasets (data for 'all reporting banks' is only available for the Immediate Borrower dataset).

¹⁵For the three quarters from Q4 2013, for which German data are available, claims on an ultimate risk basis are just over 60 per cent of claims on an immediate risk basis.

¹⁶This, in turn, overstates German bank claims on Ireland as a proportion of total international claims (on an ultimate risk basis) pre-2013.

vis-à-vis Germany to increase to approximately 18 per cent by Q1 2009 in the BIS locational banking statistics. These liabilities fell back to 11 per cent by Q1 2011 following restructuring within the HRE Group and have remained at this level until Q2 2014. Consolidated exposures on Ireland reported by German banks to the BIS have been falling steadily since 2008 with German claims on Ireland falling as a proportion of total international claims (from 23 per cent to 15 per cent between early-2008 and 2014).¹⁷ At Q2 2014, claims on

Irish-resident bank offices by German headquartered banks accounted for only 14 per cent of total German consolidated claims on Ireland.

Understanding international banking statistics for Ireland requires an in-depth study of the meta-data underlying the series. The scale of movements in the data series arising from coverage and methodological issues means that conclusions drawn from BIS published series without an understanding of the underlying factors may be suspect.

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¹⁷On an immediate borrower basis.